# economic trends

September 2012

## Alberta economy on track for a strong 2012

*The overall picture for the Alberta economy remains favourable. The economy is on pace to expand by 3.8% in 2012, according to the Alberta Government's 2012-13 First Quarter Fiscal Update and Economic Statement. Most private sector economists expect Alberta to lead the country in economic growth this year.*

*The 2012 forecast masks some interesting movements in the monthly economic indicators. The province started the first half of the year with stellar year-over-year growth in several indicators, including exports, manufacturing shipments, and employment. As expected, these growth rates have started to moderate, although consumer spending remains an area of persistent strength.*

**Key Indicators** — All indicators seasonally adjusted unless otherwise indicated

| Indicator | Latest Month | Value | Change year-over-year (y/y) |
|---|---|---|---|
| Employment (thousands) | August | 2,154 | 2.1% |
| Unemployment Rate | August | 4.4% | -1.2 p.p. |
| CPI Inflation | August | 1.0% | -1.9 p.p. |
| Retail Sales | July | $5.73B | +9.2% |
| Housing Starts (annualized) | August | 27,700 | -10.9% |
| Rigs Drilling (unadjusted) | September | 229 | -30.9% |
| Manufacturing Shipments | July | $5.9B | +1.4% |
| Exports (unadjusted) | July | $8.0B | 0.0% |

**Source:** Statistics Canada, CAODC, CMHC. p.p.= percentage points.

## Global Economy

### *US labour market struggles*

The US economy is still struggling to create jobs. In August, only 96,000 jobs were added, the fourth reading below 100,000 in the last five months. The 8.1% unemployment rate, while elevated, does not fully describe how weak the labour market is. Many discouraged workers have not returned to the labour force and are not yet counted as unemployed. August's US labour force participation rate was 63.5%, the lowest since September 1981.

### *US Federal Reserve takes aggressive action*

Continued weakness in the American labour market has prompted the Federal Reserve to take action. On September 13, the Federal Reserve announced a plan to buy $40B in mortgage securities every month until the end of the year, and possibly further. It also suggested it will keep the federal funds rate between 0 and 0.25% until mid-2015. In a change in tone, the Federal Reserve stated it will maintain low rates even after conditions improve. The goal of the plan is to lower longer term interest rates, bolster financial markets and support mortgage lending.

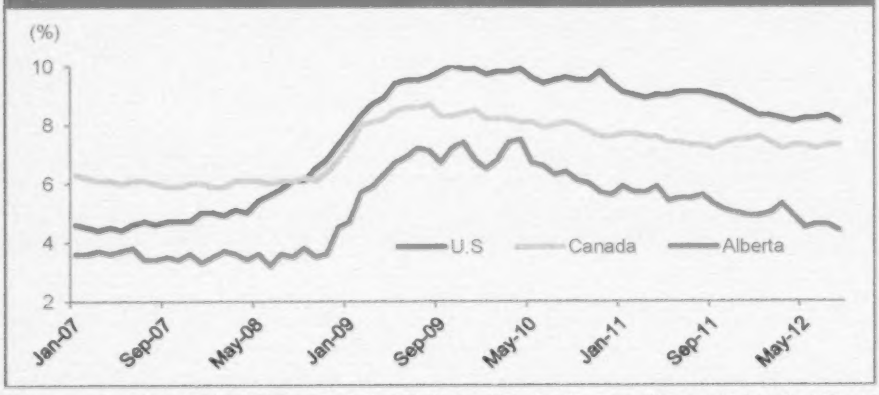
### *European Central Bank (ECB) announces bond buying program*

The Federal Reserve measures come on the heels of another stimulus program enacted in Europe. On September 6, the ECB announced it will begin buying 1-3 year bonds from troubled Eurozone governments in an effort to bring down yields. Bond purchases will be linked to fiscal performance. Governments failing to comply with fiscal reforms will not be eligible for the bond purchase program.

### *Foreign monetary stimulus bids up dollar*

Central bank actions have boosted liquidity in the US and Europe, putting pressure on the Canadian dollar. The Canadian dollar reached a 13-month high of 103.2 US cents/CDN$ on September 13 before edging down slightly.

**Chart 1: Unemployment Rates**




**Source:** Statistics Canada, US Bureau of Labor Statitistics. Note that there are differences in how the U.S. and Canadian unemployment rates are measured. The main differences are how the two countries define the working age population, the employed population and the unemployed population.

## Business Sector

### *Business indicators grow at a more moderate pace*

After a very strong start to the year, Alberta exporters have seen annual growth in their international shipments ease in recent months. July merchandise exports were largely unchanged from a year ago, marking the third straight month of flat growth. The recent slowdown is mainly due to weaker growth in energy exports (mainly price related), although

other export categories (e.g., agriculture, machinery and equipment) have also slowed.

In Alberta's manufacturing sector, shipment growth slowed to 1.4% year-over-year (y/y) in July, the smallest increase in two years. However, almost all the deceleration was due to two industries: petroleum and coal (-24.4% y/y) and chemical (-8.2% y/y) products, which were both hurt by lower prices. Excluding these products, shipments were up a very strong 14.4% y/y.

The number of rigs drilling in Alberta, a timely indicator of conventional oil and gas activity, has pulled back from last year's elevated levels: as of September, year-to-date rigs drilling is 8.4% below the same period last year. Data on meters drilled suggests that most of this weakness is concentrated in gas drilling, an industry that continues to be hurt by rising North American supply and depressed prices.

## Household Sector

*Unemployment rate hits 4-year low*

Alberta added 3,900 jobs in August, marking the sixth month that Alberta has created jobs this year. So far in 2012, the province leads all provinces in job growth at 3.1%, driven by gains in the private sector and in full time employment.

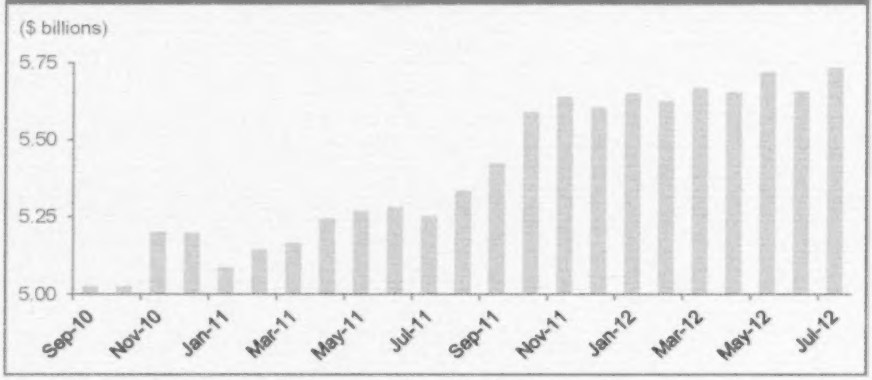
Alberta's unemployment rate fell to 4.4% last month, the lowest level since November 2008. Since April, declines in the unemployment rate have come not only from more jobs but also from fewer people looking for work. The labour force participation rate, while still the highest in Canada, has fallen a full percentage point over last year to 73.2% in August 2012.

*Housing activity trending higher*

Residential construction has rebounded sharply in Alberta this year, aided by large inflows of new migrants. Despite a 10.9% y/y pullback in August, housing starts are still up a strong 36.8% year-to-date. Residential building permits are up 18.6% over the same period, indicating strengthening home construction and renovation activity.

The resale housing market has also been improving. Sales of existing homes rose year-over-year for the 16th consecutive month in August (+10.1%). While national resale prices have leveled off, Alberta resale prices have been moving higher, up 3.4% y/y in August.

Chart 2: Alberta Retail Sales




**Source:** Statistics Canada. Retail sales are seasonally adjusted.

*Led by vehicle purchases, consumers open their wallets*

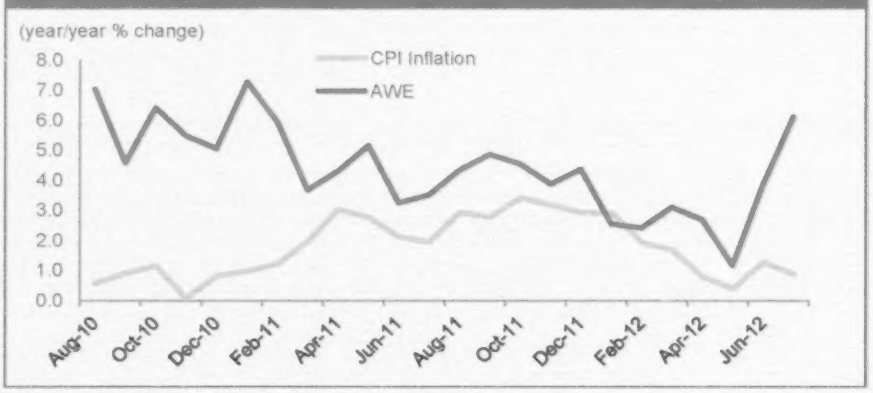
Alberta's strong labour market continues to support spending at the tills. Retail sales touched a new high in July of $5.73 billion, 9.2% higher than last July and led by an impressive 26% jump in car and truck purchases. With sales up 9.0% so far this year, nearly triple the national average, consumers are playing a key role in the province's economic expansion. Moving into the last quarter of the year, it will be difficult to sustain year-over-year growth at current levels given the large run-up in sales in late 2011 (see Chart 2).

*Earnings surge in July and continue to outpace inflation*

Average weekly earnings in Alberta jumped $26.79 from June to July, the largest monthly increase since 2006. Alberta workers have seen their weekly earnings rise at an average pace of 3.1% in the first seven months of 2012 compared to the same period last year. This is above the national average, but still below the 4.1% growth recorded in 2011.

Earnings growth has been more than strong enough to compensate for increases in consumer prices (see Chart 3). Alberta's CPI inflation remained subdued at 1.0% in August, the seventh straight reading below 2%. Year-to-date, Alberta's inflation rate has average only 1.4%, the lowest in Canada. Falling energy prices and weak growth in housing costs have restrained overall price increases. In Canada, inflation has also been modest so far this year at 1.8%, with August's reading hitting only 1.2%. Mild inflation takes some pressure off the Bank of Canada to resume a new round of monetary tightening.

Chart 3: CPI Inflation and Average Weekly Earnings (AWE) Growth




**Source:** Statistics Canada

# Alberta's export performance: a closer look at the surge in machinery shipments

*As a small open economy, Alberta relies heavily on its international exports. This InFocus looks at the changing face of Alberta's international exports over the last decade, with a focus on non-energy exports and the growing importance of machinery exports.*

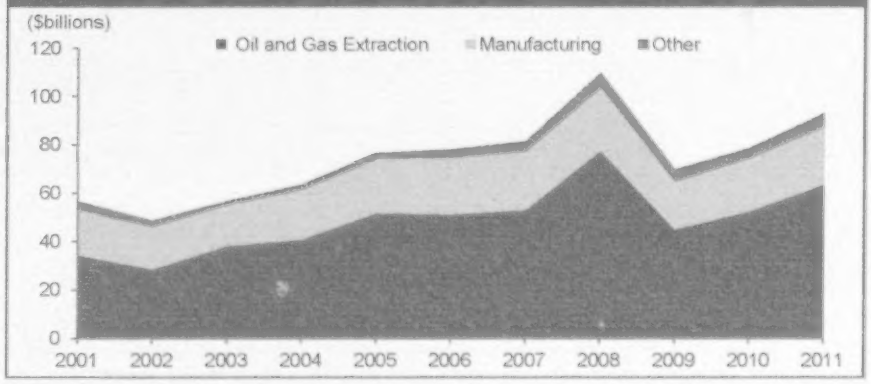
### *Oil and gas industry primarily responsible for overall export gains*

Before looking at the surge in machinery exports, it is important to acknowledge the important role of the oil and gas industry in Alberta's overall export performance.

Exports from the oil and gas industry have been primarily responsible for Alberta's impressive export growth over the last decade. Overall exports have grown 5.1% per year between 2001 and 2011, well above the 0.5% increase in the rest of Canada. The oil and gas industry exports accounted for more than 80% of this increase, growing at an annual pace of 6.3% due to higher overall prices and production (see Chart 1). Nearly all (98%) of Alberta's international oil and gas exports flow south to the US.

Within this industry, oil exports have been the key growth driver. The quantity of crude oil flowing from Alberta to the US has risen by 5.3% a year over the last ten years. As a result, Canada has increased its share of US oil imports from 14.5% in 2001 to almost 25% in 2011. In contrast, natural gas shipments have been trending downward, reflecting rising domestic supplies of US shale gas.

**Chart 1: Alberta International Merchandise Exports by Industry**




Source: Statistics Canada

### *Strong export growth not limited to oil and gas extraction*

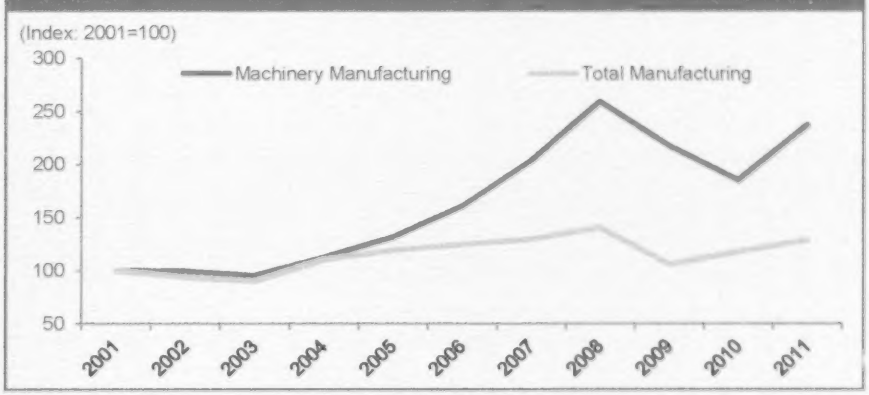
Industries outside the oil and gas industry have also seen sizable increases in exports over the last decade. Looking at the major sectors, gains above 2% per year were recorded in agriculture, forestry, fishing & hunting, mining, and manufacturing. Excluding oil and gas, Alberta exports grew at an average annual rate of 3.2% over the ten year period, far exceeding the 0.2% increase in the rest of Canada.

The main driver of Alberta's non-energy export growth has been the manufacturing sector. Accounting for more than 80% of Alberta exports outside of oil and gas, this sector has seen its international shipments grow by 2.6% per year over the last decade. Overall, Alberta manufacturers have fared relatively well, especially when compared to the 1.1% annual decrease in manufacturing exports from the rest of Canada over the same period.

### *Machinery exporters see massive jump*

Within the manufacturing sector, Alberta's machinery producers have led all industries in export growth over the past decade (see Chart 2). Machinery exports have grown from the sixth largest share of manufacturing exports in 2001 to the second largest share in 2011, just behind chemicals and ahead of petroleum and coal products.

**Chart 2: Alberta International Manufacturing Exports**




Source: Statistics Canada

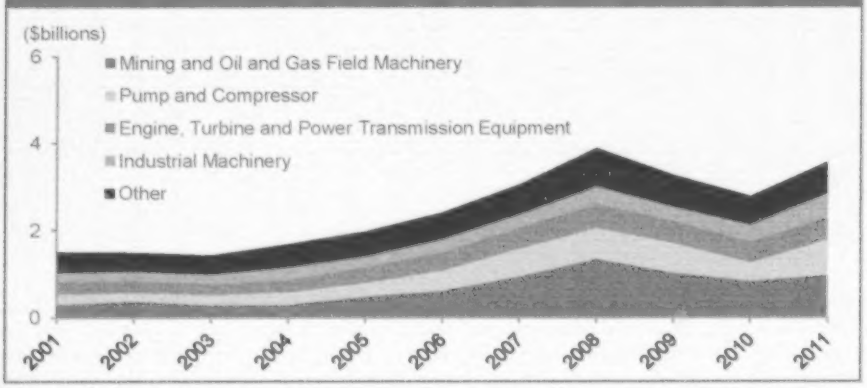
## What are Domestic Merchandise Exports?

Domestic merchandise exports are goods grown, extracted, produced, or manufactured in Canada and subsequently sold abroad. Statistics Canada presents the data in both by industry and by product. Export by product shows the value of exports using high level product groupings. Exports by industry recompile exports by product and report them by industry. Industries are classified according to the North American Industry Classification System (NAICS). In this InFocus, international exports are reported on an industry basis.

Over the last ten years, machinery exports expanded at a robust 9.0% per year, and contributed almost 30% to the increase in manufacturing exports. These export gains also corresponds to strong average increase of 9.7% in total machinery shipments in the province over the same period.

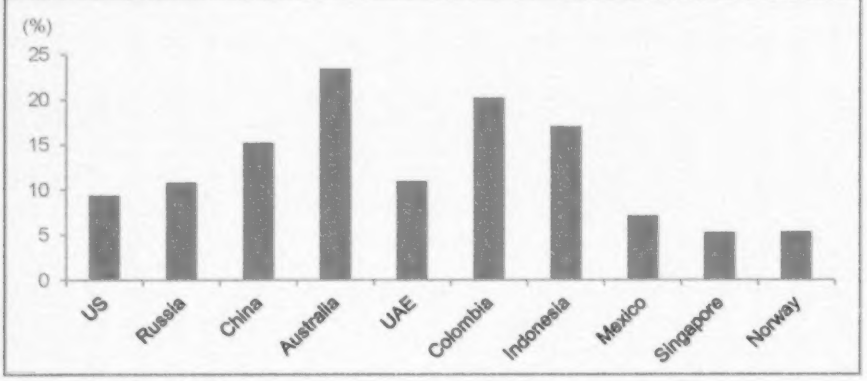
Drilling further into the data, a large portion of Alberta's machinery exports are in industries directly related to oil and gas. Mining and oil and gas field machinery continue to account for the largest share of machinery exports (see Chart 3). However, between 2001 and 2011, exports by pump and compressor producers, another industry tied to oil and gas, grew at the fastest rate of any machinery category, rising by 29.5% per year. As a result, pump and compressors now comprise the second largest share of Alberta's machinery exports, surpassing engine, turbine and power transmission equipment in 2011. Other industries making significant contribution to machinery exports include engine, turbine & power transmission equipment, and industrial machinery.

Chart 3: Alberta International Machinery Manufacturing Exports




Source: Statistics Canada

Chart 4: Alberta International Machinery Exports by Destination (2001 to 2011 average annual growth rate)




Source: Statistics Canada

*Machinery exports expanding to destinations outside the US*

The US is by far the largest purchaser of Alberta's manufactured machinery, accounting for more than half of total machinery exports. However, over the last 10 years, China, Australia, Colombia, and Indonesia have been Alberta's fastest growing markets for machinery, increasing their purchases by more than 15% a year (see Chart 4). Given the industry's links to oil and gas, it is not surprising that the top ten destination markets for Alberta machinery exports include a number of energy-producing countries, such as the United Arab Emirates (UAE), Russia, Australia, Norway and Mexico.

*Summary*

Over the last ten years, Alberta exporters have seen their international shipments soar 65%, far outpacing gains in the rest of Canada. The oil and gas industry, which accounts for more than two thirds of total exports, was mainly responsible for this growth.

At the same time, industries outside oil and gas have also seen impressive gains. One of the stand out industries is machinery, which has been the export growth leader in Alberta's manufacturing sector over the last decade. Much of these machinery exports are related to the oil and gas industry, which suggests that Alberta machinery manufacturers have been able to leverage local knowledge and technology into global opportunities.

*Contact:*

| | |
|---|---|
| *Kailer Mullet* | *780.643.0616* |
| *Samson Amusan* | *780.643.1074* |
| *Alexander Gainer* | *780.638.3238* |